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C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 002381

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [EPET](#) [ETRD](#) [KBCT](#) [KCOR](#) [IZ](#)  
SUBJECT: SCENESETTER FOR SECRETARY OF COMMERCE VISIT TO IRAQ

REF: A. BAGHDAD 2080

[1](#)B. BAGHDAD 2150  
[1](#)C. BAGHDAD 1921  
[1](#)D. BAGHDAD 2004

Classified By: Charge d'Affaires David M. Satterfield for Reasons 1.4 (b) and (d).

[1](#)1. (C) Summary. Secretary of Commerce Gutierrez's visit to Iraq provides an opportunity to press the GOI for action on economic reform that would fundamentally change the investment climate (particularly in the hydrocarbon sector), open the country to international trade, and dismantle the remnants of the country's command economy. We believe it would be helpful for you to have public and private messages to reinforce those goals. The public message should emphasize that it is possible to do business and invest in Iraq, referencing recent legislative proposals, positive economic data, and success stories such as mobile communications. The private message should be more pointed, utilizing your business experience to stress the need for Iraq to become competitive by attacking corruption, establishing a welcoming and stable investment regime, and stressing rule of law.

[1](#)2. (C) Summary continued. The Secretary's visit comes at a time when Deputy Prime Minister Barham Saleh and Prime Minister Nuri al-Maliki are focusing on an economic revitalization plan and the launch of an International Compact to assist in reform and reconstruction. PM Maliki tasked DPM Saleh to lead the GOI's efforts on economic matters. A new Ministerial Economic Affairs Committee was established in June, under DPM Saleh's chairmanship, and is serving as the initial stop for key pieces of legislation and decision-making on economic matters. We are working extensively with all of the economic ministries and hope that 2006 will register an economic turnaround for Iraq. End summary.

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OVERALL STATE OF THE ECONOMY  
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[1](#)3. (SBU) Iraq is starting to make concrete economic achievements. The IMF decision on December 23 to approve a Stand-By Arrangement (SBA) for Iraq will permit a debt relief program that should forgive 80 percent of a \$130 billion total debt by the end of 2007. In addition to removing this crushing burden, the SBA also has prompted subsidy reductions for fuels. Under the subsidy system, prices did not even cover the cost of production, corruption abounded, and resources were taken away from health, education, infrastructure development, and security. As part of the SBA, Iraq has committed to fuel price increases so that, by the end of the 1st quarter of 2007, prices for refined products will approach or (in the case of premium gasoline) exceed prices of other Gulf states. These price increases

should remove much of the incentive for smuggling across the borders.

¶4. (SBU) Many of Iraq's economic indicators are now in favorable territory. We believe Iraq had a GDP growth in the 3 percent range in 2005. The IMF expected that to improve to better than 10 percent this year, but it is unclear to what extent ongoing security problems will undercut growth. Iraq lacks the quantity and quality of macroeconomic numbers needed for accurate analysis of the economy, but we can see concrete evidence of increasing prosperity in new patterns of consumption and service use. Importantly, the GOI appears to be ready to move away from the dysfunctional centralized economy of the Saddam era.

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ARAB LEAGUE BOYCOTT  
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¶5. (C) Embassy Baghdad engaged the government of former PM Jafari intensively but unsuccessfully to remove remnants of the Arab League Boycott (ALB). Embassy already has raised this issue with PM Maliki, DPM Saleh, Foreign Minister Zebari (since the MFA houses the ALB Office), and the Minister of Trade. When the Ambassador raised it with Maliki, the PM indicated that he was unaware of the issue (ref A). We also discussed legal provisions of the ALB (Law No. 34 of 1956) with DPM Saleh during our discussions on the investment law. We pressed the DPM to include text in the draft investment law eliminating the ALB law. However, Saleh emphasized that the GOI needs to come to an explicit decision separately on ALB and currently is dealing with the issue quietly on a case-by-case basis (ref B).

¶6. (C) In our recent discussion with Minister of Trade

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al-Sudani, we emphasized that the ALB is costing Iraq millions of dollars in investment and thousands of jobs (septel). Although the Minister of Trade said he was ready to assist and that the problem needs a creative solution, he did not provide specifics on what actions he would take. Foreign Minister Zebari also failed to raise concrete solutions when we raised it with him after the new GOI formed in May (ref C). We plan to meet with the Minister of Industry over the next couple of days regarding the problems Pepsi is having in registering its trademark.

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INVESTMENT LAW  
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¶7. (SBU) DPM Saleh is spearheading the GOI's efforts to pass a new investment law (ref B). Embassy Baghdad provided suggestions to Saleh in the early drafting stages and was encouraged that many of these suggestions were incorporated in the revised text that went to the Economic Affairs Committee and Council of Ministers the third week of June. The law next will go to the Council of Representatives. Suggestions that DPM Saleh incorporated from our meetings include reducing the number of regulatory committees in the original draft and including provisions for international arbitration. Among negative features, it would not permit foreign ownership of natural resources. It also appears to prohibit investment projects unless expressly approved. Although a step forward, the draft law is not a sufficiently competitive investment regime, which we have told Saleh. The GOI requires reinforcement that this new investment regime needs an expeditious and transparent process to attract foreign investors, who are looking to make long-term decisions.

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WTO ACCESSION  
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¶8. (SBU) We met with Minister of Trade Abd al-Falah al-Sudani twice since he was appointed to press Iraq's progress towards WTO accession (ref D and septel). Minister al-Sudani told us that the GOI is still in the process of reviewing candidates to be appointed as its WTO Ambassador. Iraq also plans to submit the responses to its Foreign Trade Memorandum (FTM) "soon" but is working with other ministries to reach agreement on issues. The Ministry of Trade is in need of a strong Director General (DG) in charge of its WTO Unit since the former DG left in July 2005. Iraq needs to pick up the pace on WTO accession steps in order to have its first Working Party scheduled before the end of the year. We have reinforced this point in our meetings with the Minister of Trade.

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NATIONAL ENERGY STRATEGY  
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¶9. (SBU) Iraq needs a national energy strategy. Fuel import liberalization legislation currently is pending approval by the Council of Representatives after recently having been approved by the Council of Ministers. This is an important first step in opening the sector to private enterprise, undermining the black market, and improving fuel supply. In addition, resolving significant center-regional issues by clarifying the division of authority over resource management and revenue distribution is necessary groundwork for effective hydrocarbon legislation. A key element of a hydrocarbon law (or series of laws) would be a measure to attract the foreign direct investment (FDI) required for expansion in oil and gas production. Although the structure and regulation of the hydrocarbon sector will be a critical aspect of national energy policy, the fact that oil export revenues account for upwards of 95 percent of the state budget while Iraq is at war should be taken carefully into account.

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LOW QUOTIENT OF ECONOMIC EDUCATION  
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¶10. (SBU) Key decision-makers in the Council of Representatives are largely under-educated on economic issues. This is the product of the isolation of Saddam's regime, its orientation towards socialist states of the former Soviet bloc, and the prevalence of a culture of dependency. We have begun to educate key members and backbenchers of the Council of the Representatives on sound energy investment and development policies, subsidy reform, and the need for public integrity, openness, and transparency in the oil and gas sectors. In addition, an expanded GOI public outreach campaign is needed to educate Iraqis on sound

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economic policies and the need for openness and transparency in oil production, reserves and government revenues, and the needs to fight corruption and to continue subsidy reductions.

Embassy is partnering with the Iraqis to create TV spots on economic reform issues and to build public affairs capacity within the various ministries, the Council of Representatives, and the Government Communications Directorate (the GOI's public affairs arm).

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CURRENT ECONOMIC DECISION-MAKING IN THE GOI  
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¶11. (SBU) The GOI recently formed an Economic Affairs Committee, under the chair of DPM Barham Saleh. It also includes the Ministers of Finance, Trade, Oil, Planning, and Development Cooperation, as well as the governor of the Central Bank, president of the Board of Supreme Audit, and an advisor to be appointed by the Prime Minister. Many decisions on legislation and key economic issues are first being funneled to this committee before going to the full

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OTHER  
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¶12. (SBU) As the first cabinet Secretary to visit Iraq from a USG economic agency, your trip is very significant. In addition to raising policy issues that will help to increase foreign trade and investment opportunities, your visit has an important public outreach dimension to the Iraqi and American business sectors in Iraq. Iraqi, American, and third-country traders and investors need to be encouraged to take advantage of the clear opportunities to do business, even in the current security environment. In your public remarks, we hope you will encourage their business. The new government has made a brave start, but its confidence has been shaken by the continuing security situation. Directing the Iraqis' attention to neighboring examples such as Jordan or Turkey, where more open economic regimes have produced significantly higher levels of prosperity, would be useful.

¶13. (SBU) The GOI also should be complimented for its first steps to create a more liberal investment regime and to fight corruption. The latter problem is endemic and is, along with the more general problem of weak governance, the most significant problem holding back foreign investment. In your private comments, therefore, you should stress the need for rapid action on economic reform and anti-corruption measures. There are legislative projects currently underway regarding fuel import liberalization, investment, and housing that all can be encouraged. Your most fundamental argument should be that Iraq must create the conditions to attract investment.  
SATTERFIELD